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Conformity or Competition? The Risks Of One Size Fits All

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"Asia" like "Europe", is an artificial construct used to broadly describe geographically where "Asians" and "Europeans" live. That may be fine for geographers, but a Japanese is as different to an Indonesian as a German is to a Greek. The term “Asia” is also less important economically and politically to Asia than Europe. Asia has no economic union underpinned by a common currency. Not only are there profound cultural and ethnic differences, but their economies and social arrangements may differ fundamentally.
Asia is not a country, yet non-Asians too often forget this and promote common policies on the basis that one size fits all.

Well-meaning as this drive for uniformity may be, mature economies should take care not to take the high moral ground, or assume superiority when countries decide to "do it their way". Sovereign nations have a right to determine what is best for them and to reject policies they deem harmful to their competitiveness.

Judging from our own epiphany, doing it "our" way can be harmful not only to developing countries, but to developed economies as well. The Australian government's ambitious programme to wind back the burden of red and green tape vividly illustrates how easily competitive advantage can be surrendered through over-regulation.
Like someone whose diet has led to clogged arteries, Australia's economy has become increasingly sclerotic when it comes to the ease of doing business. We would have done better to have resisted regulatory and tax bracket creep and more carefully weighed up the trade-off between growth and costly "world's best practice". We should have followed the lead of Singapore and Hong Kong, which, according to the World Bank, are the two most friendly regulatory environments in the world. By contrast, Australia has slipped from tenth to eleventh over the past five years.

What many Asian governments know and what many of us have forgotten, is that free markets, not governments, release the energies and abilities of people to pursue their objectives. We know, for example, that China's great economic leaps forward came from Deng Xiaoping's adoption of free market principles. Unfortunately, his reforms did not extend to politics and China, like most countries with limited political freedom, lacks the rule of law and suffers from endemic, economically crippling, corruption. We have seen evidence of this in the way courts deal with cases, how contracts are awarded, credit is granted and how municipalities and companies have been bailed out, quarantining investors from loss. Now, in the cold light of day and with a $24 trillion credit bubble to deal with, it looks increasingly as though bailouts will be wound back, except where systemic risk is involved.

China's transformation from an impoverished agrarian nation to the world's largest manufacturer, where 55 percent of the population has been lifted out of poverty, is an economic miracle. It is extraordinary that per capita income has nearly quadrupled in the last 15 years. But China is transitioning, its economy is slowing and cracks are emerging.

Like Japan and Korea before it, China has picked much of the low hanging fruit and must move up the value chain of manufacturing and services. Double-digit growth in unit labour costs demand this. It must also look more to its domestic economy.

Abenomics notwithstanding, Japan's growth rate is also slowing, with forecasts predicting 1.6 percent for 2014, down from 2.2 percent. Consumer confidence is falling and an increase in sales tax from April won't help domestic demand. Japan's debt to GDP ratio is now 240 percent and with a record trade deficit it continues to climb.

Indeed, debt seems to be rising everywhere in Asia. A recent study from HSBC noted that based on debt to GDP, "leverage is now higher than at the peak before the Asian crisis in 1997". "Debt is rising at a disturbing rate", the Bank says. For example, Korea jumped from 132 percent in 2005 to166 percent in 2012. Vietnam almost doubled from 66 percent to 113 percent over this period. China's debt/GDP ratio, including estimates for shadow banks, grew by roughly 20 percent over the past five years, rising from 150 percent of GDP in 2008 to more than 210 percent in 2012. It continues to grow. In fact, China has contributed half of global credit growth in the past five years.

Regrettably, central bank policy has been globally co-ordinated and uniformly permissive, leaving the world even more vulnerable to shocks and sudden shifts. The Russian annexation of Crimea and the subsequent imposition of sanctions will hit global growth and trade flows. Russia is now talking about "defending" the Ukraine, Lithuania, Latvia and Estonia. It may go nowhere but Vladimir Putin is on record as saying that the break-up of the Soviet Union was the “greatest catastrophe of the twentieth century”. Meanwhile, China has annexed the Senkaku Islands air space and has expressed interest in regaining its former territories in the South China Sea which it believes were taken from it by “unequal treaties”. Taiwan remains unresolved.

China's economy is dangerously balanced at the moment. It is being weighed down by huge excess capacity and unsold inventories. It is estimated to have 250 million tons of unsold steel, 3.3 billion square meters of excess floor space and its price-to-rent ratio in eight key cities is 39.4 times, compared to 22.8 times in the US just before the sub-prime crisis. China may navigate its way through this challenge, but bubbles have a habit of bursting rather than deflating.

So the world is not short of geo-political threats or potential economic shocks.
And, thrown into the mix, Japan has begun what may well become an international currency war by driving down the yen. The South Koreans, particularly, are closely monitoring this development and may yet retaliate.

At the heart of this uncertainty is that the more world leaders press for synchronised global action, the more they create risks. Post the global financial crisis, they have encouraged governments of the major economies to added more debt and liquidity to an already over-leveraged planet. This is despite having observed that synchronous recessions tend to be deeper and last longer.

At the micro level, the independence of sovereign governments and their various agencies is being constantly compromised by the pressure for conformity. This is transmitted at international gatherings of world leaders and meetings of regulators. Those not up with "upstream, coherent, convergent outcomes", are considered to be somewhat behind the times. This peer-group pressure is felt keenly by smaller countries seeking relevance. They are often pushed into implementing measures which may not always be in their best interests. Occasionally big countries resist. China for example has decided to abandon a carbon tax, preferring to deal with real carbon pollution than non-polluting CO_2. India has rejected the WTO's limits on food subsidies and stockpiling. But usually the collective, benevolent, hand rather than Adam Smith's invisible one, prevails.

Perhaps it will take another global crisis for countries to realise their best course may lie not in conformity but in self-interest, diversity and competition. Neither Australia nor our Asian neighbours should give in to peer group pressure from the major economies and mindlessly follow so-called reforms which give competitive advantage to those with scale.

Given the uncertainty of today's geo-politics and economic outlook, we will need to keep our faith in God, our powder dry and an ever critical eye on what is in our and our neighbours' best interest.

It is increasingly unlikely one size will fit all.